

TODILTO

EXPLORATION AND DEVELOPMENT CORPORATION

August 23, 1991

G. WARNOCK
PRESIDENT

RE: MINING LEASE NO. AT(05-1)-ML-60.8-NM-B-1, CLAUSE XXX. DISPUTES.

Mr. Bob Ivey
Contracting Officer
Department of Energy
P.O. Box 2567
Grand Junction, CO 81502-2567

Dear Bob:

You have made us aware that you plan an immediate permanent closing of Todilto's Haystack mine leased from you under the above cited reference. We have put you under notice by our registered letter dated July 31, 1991, to Mr. Carl Freytag, that we dispute the need for this permanent closing of the mine on health risk grounds. You have responded to our concerns with your letter of August 6, 1991. This, and subsequent telephone discussions have resulted in your insistence that you will effect the closing.

We contest this decision under Clause XXX, DISPUTES. in the Lease and, assuming your personal decision is irrevocable, hereby put you on notice that we demand a hearing before the Commission on the factual merits. Further, if you proceed with this action prior to a determination by the Commission, this will constitute a taking of Todilto's leasehold asset without compensation. We take this position for the following reasons.

1) We have demonstrated for you through copies of our gamma survey that no health risk exists on the property. You have agreed with us that the DOE also cannot duplicate the high readings reported by the EPA during their cursory and unprofessional survey of the property. Even accepting the EPA data as factual, which we do not, only the ore pad areas above the portal contain material reading at or above the 165uR/h. We have suggested to you that a simple burying of these areas at a reasonably cost would suffice to eliminate the non-existent risk from gamma radiation on the surface without the permanent closure of the mine openings. Our gamma survey of exhaust from these opening run over two hour periods, including the heat of the day in mid-summer, clearly demonstrates that there is no gamma radiation above the EPA determined background exiting the mine.

2) Our radon survey of these openings run on August 2, 1991 and faxed to you also demonstrates there is no radon exiting the mine above normal background. As a matter of fact the radon is so low as to be almost unmeasurable - even on a cool day when natural ventilation was reversing and exhausting the 8 foot by 8 foot portal. This survey plus 1) above clearly demonstrates that CERCLA criteria for radiological health risk do not apply to the mine openings.

3) The mine is not "abandoned" and has never been since it's inception so that the CERCLA criteria for "abandoned" mine waste does not apply in this case. Factually, as the record shows, DOE has encouraged Todilto to maintain the lease and mine in an inactive status which it has done at considerable expense for over ten years in the exact condition as dictated by the DOE.

4) There exists in the mine approximately 120,000 pounds of readily minable uranium ore "resources" in pillars that are easily accessible when uranium prices return to only somewhat higher levels. At a price of \$17.00 per pound, they will net some \$200,000 and at \$20.00 - some \$600,000. I have sent you recent publicity on the uranium market that shows an expectation for at least a \$17.00 per pound price in the near future. Further low grade reserves in addition to the pillars also exist which could be mined if the price were to go well above the \$20.00 mark.

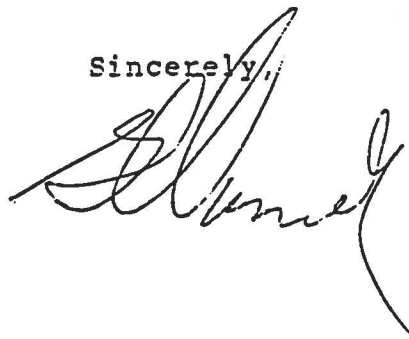
5) Todilto has reclaimed the mine exactly to DOE specification including refilling, soiling and reseedling the open pit and other areas of the property. Our Mining Plan, with the underground mine reclamation dictated by and approved by the DOE calls for us to maintain locked gates to restrict access to the mine during the inactive status. It was the intent of all parties, including the DOE, to maintain the natural ventilation of the mine to avoid an extremely high build up of radon underground which would endanger our underground inspections during the inactive period, and also our miners during reopening and add to the costs thereof. This is why the DOE dictated grilled gates and vent covers.

6) If and when Todilto abandons the lease, the Mining Plan calls for a simple "sealing" of the openings and "contouring" of the mine dump. You have furnished us with your proposal to permanently close the mine openings, including digging up the ore pads and placing them in the main haulage level and including buried reinforced concrete bulkheads over all openings that we estimate will cost from \$70,000 to \$80,000. This is not a "simple sealing" of the openings and would render the mine un-operational under any foreseeable economic conditions forever. It includes the destruction of the second escapeway inclined raise which is cribbed through the upper loose soil section. At your request and based on our long term mining experience, including as a contractor for the State of New Mexico Abandoned Mined Lands program wherein we effected many old mine closures, we supplied you with a closure program (which in principal we disagree with as the mine is not abandoned) costing only some \$32,000. Neither of these proposals address the mine dump.

7) The mine dump is to be "contoured". Due to it's proximity to the section 24 property line which location was approved by the DOE, it will be extremely difficult to do anything with it under any reasonable cost basis. As a matter of fact, the argument can be made that it is already "contoured" because over the intervening ten years it has essentially stabilized itself and has not further eroded in recent years. Secondly there is no mention in the Mining Plan or Lease concerning a requirement to cover and seed the dump, as there specifically was for the open pit. This subject will apparently only come up on final relinquishment of the lease by Todilto sometime in the future. However, based on your verbal assertions in regard to final reclamation of the lease that you would now retroactively apply "new" standards that would meet CERCLA criteria, whether they are rational or not, we put you on notice that Todilto will only be liable for those reclamation cost contemplated by the Lease and Mining Plan as outlined above and which criteria were normal for the mining industry at that time, an easily documented format per the Abandoned Mined Lands programs and many others.

8) Todilto has offered DOE a compromise on this problem wherein we will abandon our leasehold asset in return for DOE releasing Todilto from any further reclamation costs. Our rational in this offer is, that for reason of your own vis a vis the EPA, DOE will apparently effect the permanent closing at greatly exaggerated cost not contemplated in Todilto's Lease or Mining Plan. As a small, poor company we believe this compromise is preferable to dragging the problem through the courts.

Sincerely,



GW/gbr
c/ Alan Hall
DOEHAY6.LTR